5/17/88 C0175-1 A

APRIL MERGERS — P. 10
RAISING CAPITAL — P. 18

American Banker

The Daily Financial Services N

155389000015 2/ 5/07 C11
STATISTICAL REFERENCE INDEX
JOHN P KENNEDY
4520 EAST WEST HIGHWAY
SITE 800
BETHESDA MD 20814

VOL. CLIII NO. 96 Tuesday, May 17, 1988 ...rd Year

Today

The purchase of four insolvent Texas thrifts by Coastal Banc Savings will pave the way, regulators hope, for similar deals under the Federal Savings and Loan Insurance Corp.'s so-called Southwest plan. ____ 28

Bank of America says its secret of success in Japan is marketing the bank's strengths to gain cooperation from Japanese bankers. ____2

A suit filed by two former executives of the Meritor Financial Group's mutual fund operation charges that Meritor officials had conflicts of interest that undermined the unit. ____3

In April, for the third month in a row, the merger scene was dominated by a deal involving a foreign bank. — 10

The Federal Reserve Board and seven of the nation's money center banks have asked the Supreme Court to refuse to hear the Securities Industry Association's challenge of several Fed orders that permit 11 banks to underwrite and deal in certain securities. 11

The weekly listing of financial services stocks features regional industry groups and price indexes. — 22

Valley National Corp. chairman James P. Simmons, responding to concerns raised in a recent report, says the bank expects to begin showing real progress in cutting costs. 24

M. Danny Wall, chairman of the Federal Home Loan Bank Board, reportedly will not abolish the Federal Asset Disposition Association. ____ 31

Bank Trigger Dates ____ 16
Executive Changes ____ 15
Global People ____ 15
Have You Commented? ____ 14
In the News ____ 3
Worth Reading ____ 32

CORPORATE FINANCE

Insurance companies are increasing their investments — slowly — in employee stock ownership plans. ____2

Despite growing optimism in the nation's shipping industry, bankers who have survived bad times in the volatile business remain cautious. ____8

Jamie Stewart Jr., moving to his fourth bank in six years, takes on the task of consolidating investment banking at Mellon Bank Corp. ____8

Demand for merger-related credit will be greater this year than last, according to a Federal Reserve Board study, but companies will find some banks less willing to lend. ____9

Bankers Trust Co., New York, was the nation's leading loan buyer in last year's fourth quarter. ____ 12

Worth Repeating

Sure, there is a certain amount of resistance, but our resolve is like a steel wall.

James P. Simmons, chairman of Valley National Corp., Phoenix, on reports that the bank's cost-cutting efforts are meeting opposition from the rank and file. [Page 24]

Irving Wins Proxy Battle, Results Indicate

52-48% Vote a Major Blow to Bank of New York's Hostile Bid

By BART FRAUST

NEW YORK — Irving Bank Corp. has successfully fended off Bank of New York's bid to elect a slate of 16 directors to Irving's board, according to preliminary results of the proxy battle released Monday.

Irving's slate of incumbent directors received 7.7 million votes, or 52%, while Bank of New York's received 7.1 million, or 48%, the preliminary tally showed.

The vote is subject to challenge by both sides. Final results are expected to be announced on May 24.

Most analysts were left speechless by Irving's 600,000-vote margin of victory, which was a perhaps fatal defeat for Bank of New York's hostile takeover bid. Earlier, officials were told that the vote was too close to call, according to sources.

Analysts had been predicting that Bank of New York would prevail. But the vote is a big boost for a friendly bidder for Irving, Milan-based Banca Commerciale Italiana.

One banking industry analyst said that Bank of New York probably will not react to the defeat by increasing its offer for Irving. "They were already at the limit on dilution. The market wouldn't accept more," said Virginia A. Adair, vice president of Merrill Lynch Capital Markets.

In a statement, Irving said, "This vote of confidence in Irving's board is gratifying." The bank added that it is confident its proxies will withstand any challenges.

Bank of New York said: "We are disappointed that, based on the preliminary result of the proxy vote, it appears that our slate of nominees to the Irving board has been defeated. We are reviewing all our options, including termination of the offer."

Winning the proxy fight has been a major element of Bank of New York's eight-month-old takeover battle. A victory would enable the bank to force Irving to accept a merger, dismantle poison pills established by Irving, and waive a New York State law restricting hostile takeovers.

Stock prices of both Irving and Bank of New York rose in very active trading on the New York Stock Exchange. Irving finished at $60.625, up 25 cents from Friday's close. Bank of New York closed at $32, up $1.25.

Separately, Bank of New York said it has again extended its tender offer for Irving, this time until the end of business on Friday. The offer was scheduled to expire at the end of business last Friday.

As of last Friday, about 10.5 million Irving shares had been tendered to Bank of New York, representing about 57% of Irving's common shares. Bank of New York is seeking to buy at least two-thirds of Irving's outstanding shares. Bank of New York owns 4.9%

Irving: Page 31 ➡

COMMENT

Talking Your Way To Higher P-E Multiples

By SANFORD ROSE

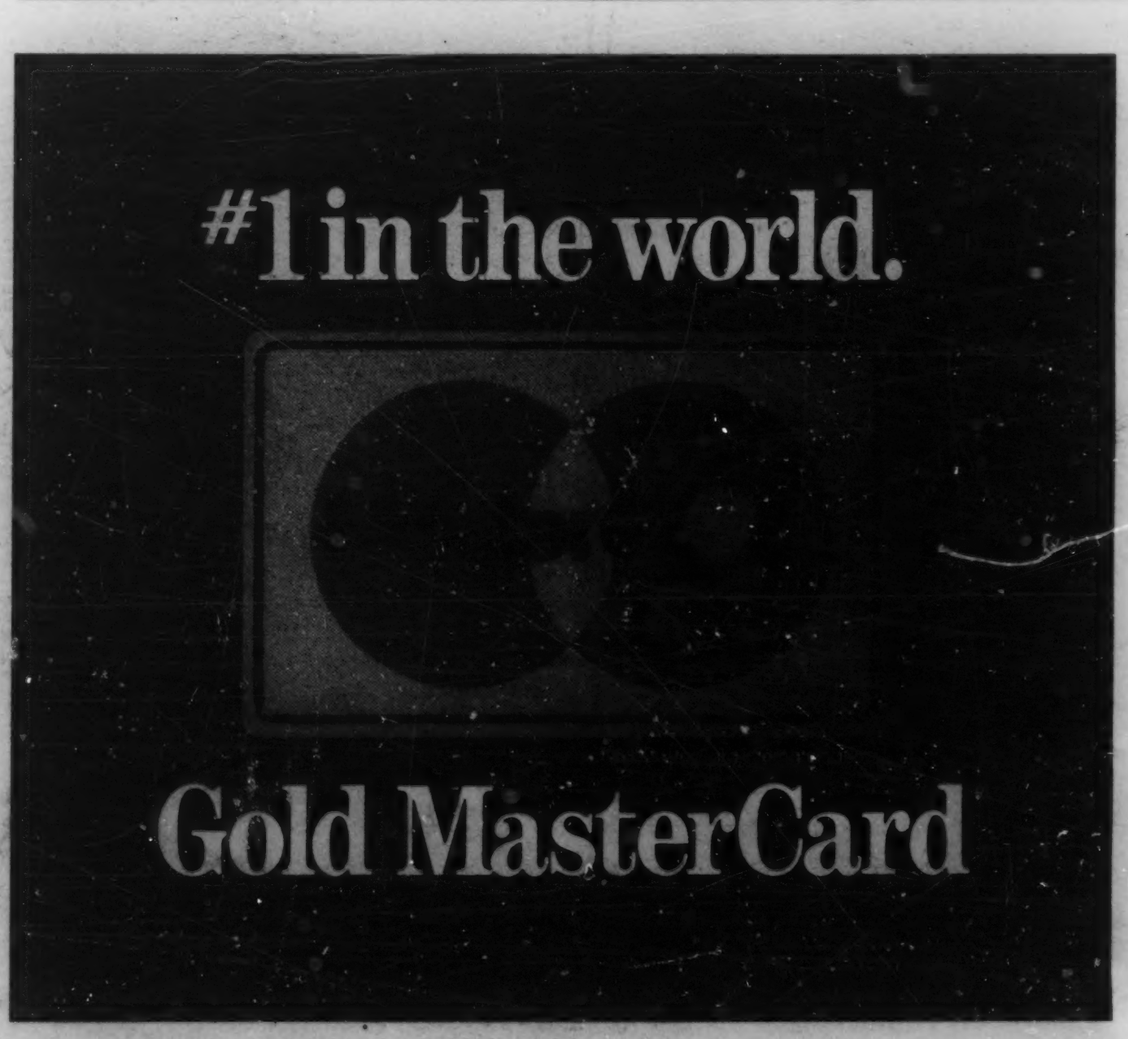
Chris Snyder, president of Loan Pricing Corp., New York, thinks that he has found a way for banks to increase their price-earnings multiples by as many as four points by just talking and not actually doing very much. Is he pulling our leg? Yes and no.

In conversations with bank analysts, Mr. Snyder has uncovered a profound sense of uneasiness. Analysts aren't being told the things they need to hear in order to do their jobs. Bank CEOs are making the same presentations to the analyst community that they habitually give to bank examiners. They talk in terms of return on assets, loan-loss reserve adequacy, etc.

The analysts don't want to hear this potboiler. They need information that will enable them to appropriately discount to present values the bank's income stream, particularly that being generated by the commercial loan portfolio, which to most analysts is a sort of black box.

Banks dilate on nominal returns, while analysts want to learn about

Comment: Page 4 ➡



THE ESOP
AND
EXECUTIVE
COMPENSATION
SPECIALISTS

BANKING
CONSULTANTS
OF AMERICA

6584 Poplar Avenue,
Memphis Tennessee 38138-9990
(901) 682-0611

DALLAS • SAN FRANSISCO • WASHINGTON, D.C.

Continued from Page 1

risk-adjusted returns. Are banks charging their business borrowers enough to cover the perceived risks? If they aren't, then high current nominal returns are a mirage, a fata morgana. These returns will deliquesce as surely as the winter snows.

Macro vs. Micro Risk

Banks have some funny attitudes about risk. They tend to equate it with the current strength of the borrower's balance sheet. Yet this is merely the micro risk.

The true risk of a loan, says modern portfolio theory, can be assessed only in conjunction with that of other loans in the portfolio. Lending to a borrower with a powerful balance sheet can be riskier than lending to one with a less impressive balance sheet if, for example, the "stronger" borrower is engaged in a business to which the bank is already heavily and perhaps excessively committed. Otherwise stated, true risk depends on covariance — the extent to which the business fortunes of a portfolio of borrowers are intertwined.

Analysts doubt that bankers really understand their macro or global risks. On the other hand, they have no doubt that bankers do an outstanding job of assessing and documenting balance-sheet or micro risks. But do bank charges reflect this meticulous analysis?

Mr. Snyder believes that they don't, and, what's more, he thinks that the analysts suspect as much. The chart on this page shows all-in bank spreads, which take into account raw spreads, fees, the value of required balances, and utilization rates, for a variety of credit extensions for six risk classes of customers, ranging from class 1, an excellent risk, to class 6, a substandard credit. The data show spreads over 90-day Libor for some 3,500 loans made by 30 banks.

Note the line labeled 30-bank average. This shows that the range of spreads earned by these banks is incredibly narrow. There is less than a 120-basis-point differential between the spread earned from a marginal borrower (class 5) and that earned from a good borrower (class 2). It would appear that banks are not pricing to adequately reflect differential balance-sheet risks.

A Point for Awareness

Notes Mr. Snyder: "My inquiries lead me to believe that if a bank went before the analyst community and simply drew this line, it would shortly be rewarded with a one-multiple upgrading of its price-earnings ratio."

To be sure, this statement is not to be interpreted literally. What Mr. Snyder means is that the analysts would be relieved to learn that the bank is aware of the absence of adequate pricing gradations in the industry. Since the bank was cognizant of this key problem, as many seem not to be, and was willing to discuss it frankly, that should be worth something to its stock price.

Now suppose that the bank, having agonized over the underpricing problem sufficiently, was considering a system which would lift its loan charges to the level described by the line labeled "My Bank" within, say, one year. If the bank could, with justice, present this second line to the analysts, that, opines Mr. Snyder, should serve to lift its multiple by another point, even though nothing tangible had yet been accomplished.

One way of gauging the adequacy of bank compensation for varying balance-sheet risks is by comparing the spreads charged by banks with those demanded by the bond market from the same type of customer. Loan Pricing Corp. arranged seven corporate bond ratings (triple A to CAA) into the equivalent of its six risk classes of corporate loans.

It then computed the spread over treasuries of comparable duration for bonds in each class. Finally, it converted these long-term spreads into 90-day Libor spreads by using prevailing swap rates.

The result is the topmost line on the chart. It shows that the bond market charges a spread differential of around 400 basis points between good credits (risk class 2) and marginal credits (risk class 5) instead of the 120-basis-point differential obtained by banks.

Left with the Detritus

As the chart indicates, a borrower who would receive a "2" rating from a bank is likely to get somewhere between an A and a BAA rating from the bond market. Such a borrower is being charged more for bank loans than bond credit, after the price of that credit has been converted to the equivalent of a 90-day Libor charge by subtracting 86 basis points — the swap rate — from the fixed bond rate.

By contrast, a loan customer who is rated "4" is likely to be accorded a grade of between B and CAA by the bond market. Such a customer is being charged appreciably more by the public market than by his bank.

In other words, as has been frequently emphasized, banks tend to overcharge their best customers and undercharge their poorer ones. Small wonder, then, that banks end up with the detritus of the borrowing community.

Of course, loans and bonds are different beasts. Banks, it is held, maintain rigorous oversight of borrower balance sheets, while bondholders do not. Thus, bank charges should be somewhat lower than bond charges. But should the differential be as wide as is revealed by the chart for borrowers with bank ratings of three and worse? Obviously not.

Says Mr. Snyder: "As the loan-sales movement gathers momentum, common investor groups will emerge who will be indifferent between buying groups of loans and groups of bonds. The wide disparity between loan and bond yields will then set the stage for an immense arbitrage. Banks that can incent their sales forces to demand prices that more appropriately reflect the risk perceived by the public credit markets will become arbitrageurs. Those that cannot upgrade their charges will become 'arbitragees.'"

Hence, ventures the New York consultant, if the bank in question is able to include this topmost line in its analyst presentation, its audience would be most gratified. This would reveal that the bank is aware of the very considerable progress that still must be made in loan-pricing rationalization. Once again, mere evidence of awareness may be sufficient to incline the analysts more favorably toward the bank's stock, serving perhaps to lift its multiple yet another notch.

Covering Expected Losses

Finally, if the bank can reveal a plan for better aligning risk-related charges with those exacted by the competitive public markets (as indicated by the arrows on the chart), the analyst community would be overjoyed. The bank would be serving notice that it is prepared to stop undercharging poor-quality customers and, just as important, stop overcharging its best risks.

The bank's prices might eventually be adequate enough to build a self-insurance fund against at least expected, if not unexpected, loan losses. As a result, its anticipated income stream could be more realistically discounted to its present value. And that prospect, in turn, would justify putting its stock on still more buy lists, causing the price-earnings ratio to rise by yet another and final multiple.

Comment: Page 25

American Banker
The Daily Financial Services Newspaper
Established 1836
One State Street Plaza, New York, N.Y. 10004
(212) 943-6700

Editor: William E. Zimmerman
Managing Editor: Brian P. Sullivan
News Editor: Thomas J. Ferris
Associate Editors: Laura Gross, Sanford Rose, David O. Tyson

NEWS BUREAUS:
Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529; Telecopier: (202) 628-6522.
Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Il 60604; (312) 663-6380; Telecopier: (312) 939-4925.
West Coast: Chief, Robert Luke, Suite 320, 510 W. Sixth St., Los Angeles, CA 90014; (213) 627-0953; Telecopier: (213) 627-8310.
San Francisco: Chief, Michael A. Robinson, 450 Sansome Street, Suite 1420, San Francisco, CA 94111; (415) 986-8705; Telecopier: (415) 398-4156.
Southwest: Chief, David LaGesse, Suite 1600, 8080 North Central Expressway, Dallas, TX 75206; (214) 891-8878; Telecopier: (214) 696-0050.
New England: Chief, Michael Weinstein, 210 South St., Boston, MA 02111; (617) 542-6848; Telecopier: (617) 542-2221.
London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (011) (441) 439-3066; Telecopier: (011) (441) 734-5153.

Feature Editions Editor: Patricia Stundza
Chief Statistician: L. Michael Cacace
Senior Editor, Copy Desk: Aileen L. Kyte
Art Director: Pamela Budz
Contributing Editor: Paul S. Nadler

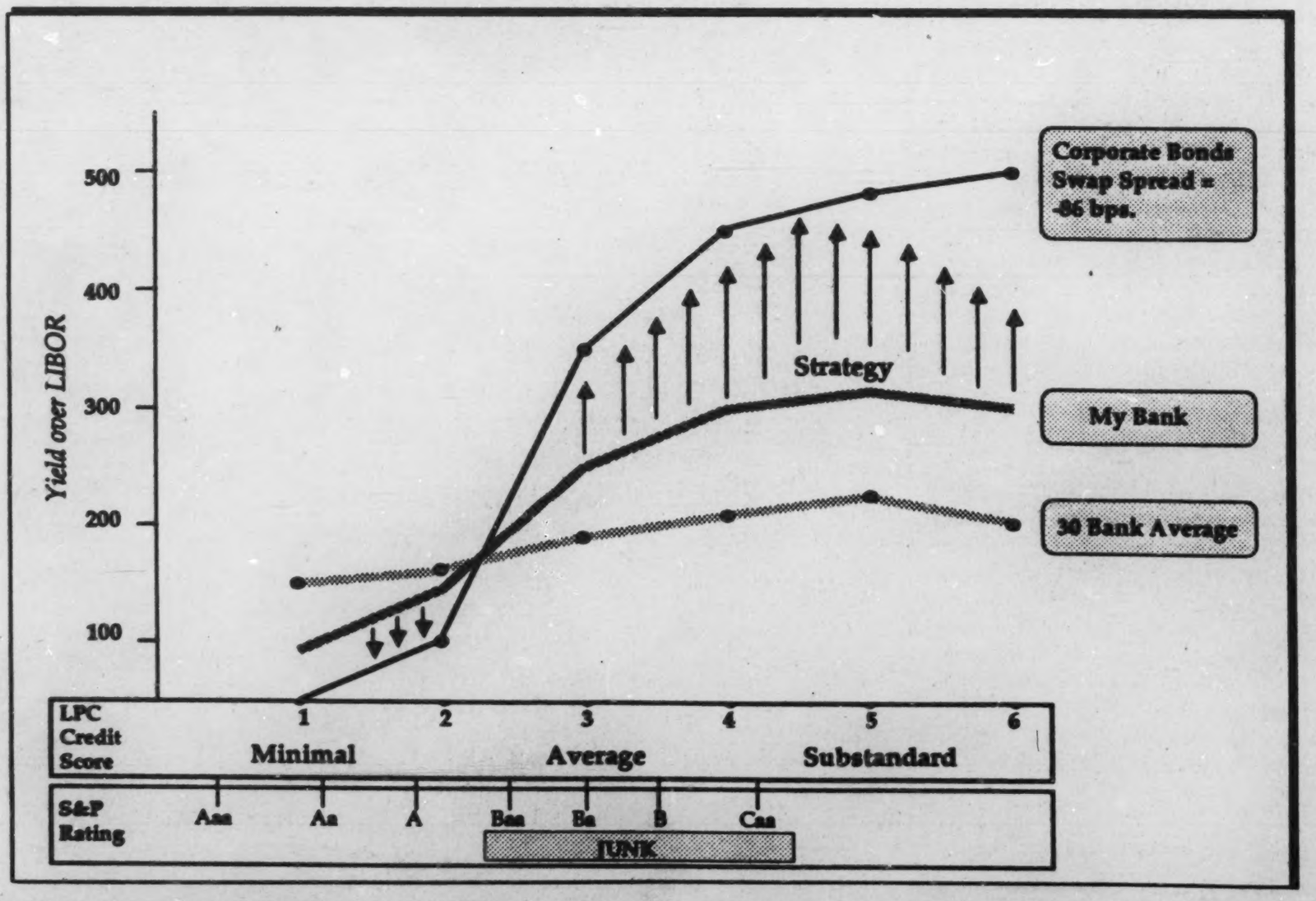
President: George W. Landgrebe
Executive Vice Presidents:
Publishing - Edmund C. Burke
Information Products - Robert S. November
Administration - Con A. Rusling
Vice Presidents:
Production Services - Neil Fitzgerald
Advertising - Edward C. Frey
Circulation - James E. McSurely

Advertising:
New York: (212) 943-4259
Chicago: (312) 663-6390
San Francisco: (415) 421-7950
Los Angeles: (213) 382-6346
Charlotte: (704) 522-7181
Classified: (800) 221-1910
International: (212) 943-4250
Telex: 421768 ABKR

Subscription Rates: U.S. $525.00, Canada $775.00.
Canada Air Mail and Foreign $1090.00. Single copy $3.45
©1988 by American Banker • Bond Buyer, a division of International Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in U.S. Patent and Trademark Office.
Published daily except Saturday, Sunday and holidays.
Second Class Postage Paid at New York, N.Y. and at additional mailing offices in U.S.A. (ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, 1 State Street Plaza, New York, N.Y. 10004

For subscription orders and inquiries call:
Outside New York - (800) 221-1809
In New York - (212) 943-9589 Collect.

Wires: WU Telex 882385 Answer Back: AmerBank NYK. WUI 62594 AMERBANKER
Cable Address: AMERBANKER New York.
Telecopier: (212) 943-2222



May 17, 1988, American Banker

Book Value of Municipal Holdings at Top 100 Banks

Yearend 1987 compared with 1986, 1985, and 1984 (dollar amounts in thousands)

Asset Rank 12/87		Holdings 12/31/87	Holdings 12/31/86	Holdings 12/31/85	Holdings 12/31/84	% Chg. 86-87	% Chg. 85-86	% Chg. 84-85
1	Citibank, New York	$1,791,000	$1,951,000	$801,000	$414,000	-8.2%	143.6%	93.5%
2	Chase Manhattan Bank, New York	1,744,211	1,970,916	2,186,251	1,833,812	-11.5	-9.8	19.2
3	Bank of America, San Francisco	284,000	339,000	927,000	1,090,000	-16.2	-63.4	-15.0
4	Morgan Guaranty Trust Co., New York	4,001,609	4,350,264	3,898,047	2,440,695	-8.0	11.6	59.7
5	Manufacturers Hanover Trust Co., New York	1,098,000	1,659,000	1,748,006	1,222,557	-33.8	-5.1	43.0
6	Chemical Bank, New York	1,603,000	1,669,000	1,597,051	788,997	-4.0	4.5	102.4
7	Bankers Trust Co., New York	1,490,252	1,397,782	1,361,202	772,431	6.6	2.7	76.2
8	Security Pacific National Bank, Los Angeles	261,027	294,554	328,732	357,864	-11.4	-10.4	-8.1
9	Wells Fargo Bank, San Francisco	92,460	118,955	365,310	442,042	-22.3	-67.4	-17.4
10	First National Bank of Chicago	477,920	504,092	526,755	558,494	-5.2	-4.3	-5.7
11	Continental Illinois National Bank & Trust Company of Chicago	65,271	65,691	136,424	136,827	-0.6	-51.8	-0.3
12	First National Bank of Boston	216,535	277,824	285,781	12,394	-22.1	-2.8	2205.8
13	Bank of New York, New York	1,197,411	1,191,402	1,277,243	788,531	0.5	-6.7	62.0
14	Mellon Bank, Pittsburgh	825,506	1,064,674	794,500	209,463	-22.5	34.0	279.3
15	Marine Midland Bank, Buffalo	595,332	706,670	1,044,096	441,936	-15.8	-32.3	136.3
16	Irving Trust Co., New York	266,918	316,653	331,601	282,957	-15.7	-4.5	17.2
17	First Interstate Bank of California, Los Angeles	414,368	489,635	542,901	547,818	-15.4	-9.8	-0.9
18	First RepublicBank Dallas, Dallas	160,357	614,610	788,128	764,097	-73.9	-22.0	3.1
19	Republic National Bank of New York	469,888	474,293	1,443,949	361,300	-0.9	-67.2	299.7
20	First Bank, Minneapolis	782,277	787,561	1,124,563	444,126	-0.7	-30.0	153.2
21	First Union National Bank of North Carolina, Charlotte	973,129	1,003,120	841,781	321,749	-3.0	19.2	161.6
22	NCNB National Bank of North Carolina, Charlotte	218,503	373,973	448,524	542,958	-41.6	-16.6	-17.4
23	Pittsburgh National Bank	323,219	746,214	974,889	157,783	-56.7	-23.5	517.9
24	National Bank of Detroit	852,109	850,216	955,217	848,522	0.2	-11.0	12.6
25	Bank of New England, Boston	119,274	175,696	199,464	119,897	-32.1	-11.9	66.4
26	Boston Safe Deposit & Trust Co.	971,084	876,555	483,308	153,522	10.8	81.4	214.8
27	Southeast Bank, Miami	975,004	1,101,463	1,277,423	715,474	-11.5	-13.8	78.5
28	Citibank (South Dakota), Sioux Falls, S.D.	0	0	0	0	--	--	--
29	Sovran Bank, Richmond, Va.	563,646	762,255	747,625	529,175	-26.1	2.0	41.3
30	Wachovia Bank & Trust Co., Winston-Salem, N.C.	564,426	615,813	822,924	486,859	-8.3	-25.2	69.0
31	Citizens & Southern National Bank, Atlanta	632,803	591,392	783,791	255,624	7.0	-24.5	206.6
32	National Westminster Bank USA, New York	444,005	509,796	567,650	282,853	-12.9	-10.2	100.7
33	Texas Commerce Bank, Houston	516,248	570,110	801,740	645,065	-9.4	-28.9	24.3
34	First Fidelity Bank, Newark, N.J.	630,861	777,375	860,374	478,415	-18.8	-9.6	79.8
35	Connecticut National Bank, Hartford	566,791	700,176	909,949	566,897	-19.1	-23.1	60.5
36	Seattle-First National Bank	27,785	34,108	43,790	50,360	-18.5	-22.1	-13.0
37	Fidelity Bank, East Whiteland Twp, Pa.	361,662	372,913	485,616	197,205	-3.0	-23.2	146.2
38	Valley National Bank of Arizona, Phoenix	592,022	728,323	677,305	405,237	-18.7	7.5	67.1
39	NCNB National Bank of Florida, Tampa	668,222	693,554	789,136	210,418	-3.7	-12.1	275.0
40	Maryland National Bank, Baltimore	384,588	467,177	442,108	201,305	-17.7	5.7	119.6
41	Connecticut Bank & Trust Co., Hartford	547,482	1,103,142	1,342,993	619,711	-50.4	-17.9	116.7
42	Philadelphia National Bank	268,802	393,180	563,021	288,014	-31.6	-30.2	95.5
43	Union Bank, Los Angeles	226,087	296,176	398,302	303,926	-23.7	-25.6	31.1
44	Harris Trust & Savings Bank, Chicago	332,778	411,884	425,214	227,589	-19.2	-3.1	86.8
45	Crestar Bank, Richmond, Va.	323,259	381,132	471,629	267,629	-15.2	-19.2	76.2
46	Michigan National Bank-Farmington, Farmington Hills	183,116	584,458	231,819	161,095	-68.7	152.1	43.9
47	Rainier National Bank, Seattle	154,507	162,804	281,915	157,419	-5.1	-42.3	79.1
48	AmeriTrust Co., Cleveland	475,405	516,132	773,790	606,021	-7.9	-33.3	27.7
49	United States National Bank, Portland, Ore.	546,058	581,953	674,985	510,099	-6.2	-13.8	32.3
50	Comerica Bank-Detroit	490,956	500,972	601,505	452,424	-2.0	-16.7	33.0
51	Manufacturers National Bank, Detroit	321,466	330,004	330,175	332,836	-2.6	-0.1	-0.8
52	Northern Trust Co., Chicago	308,838	326,788	268,773	173,213	-5.5	21.6	55.2
53	Shawmut Bank, Boston	430,793	562,742	562,375	214,996	-23.4	0.1	161.6
54	Florida National Bank, Jacksonville	327,327	356,847	347,172	308,948	-8.3	2.8	12.4
55	Huntington National Bank, Columbus, Ohio	322,137	350,760	318,929	234,697	-8.2	10.0	35.9
56	MBank Dallas	177,551	254,793	342,623	426,182	-30.3	-25.6	-19.6
57	First Union National Bank of Florida, Jacksonville	564,269	581,073	632,634	414,023	-2.9	-8.2	52.8
58	National City Bank, Cleveland	651,780	682,067	601,247	148,682	-4.4	13.4	304.4
59	Fleet National Bank, Providence, R.I.	572,629	741,081	828,536	440,415	-22.7	-10.6	88.1
60	First National Bank of Atlanta	252,883	272,389	287,937	180,412	-7.2	-5.4	59.6
61	Signet Bank-Virginia, Richmond	416,594	524,269	520,396	311,042	-20.5	0.7	67.3
62	State Street Bank & Trust Co., Boston	238,154	287,354	351,224	231,145	-17.1	-18.2	51.9
63	Norwest Bank Minneapolis	131,437	122,325	476,370	141,210	7.4	-74.3	237.3
64	Meridian Bank, Reading, Pa.	469,212	522,515	466,951	227,900	-10.2	11.9	104.9
65	First Interstate Bank of Arizona, Phoenix	485,584	439,259	402,100	318,989	10.5	9.2	26.1
66	Bank of Tokyo Trust Co., New York	163,836	169,931	172,696	172,881	-3.6	-1.6	-0.1
67	Riggs National Bank of Washington, D.C.	378,931	448,504	528,641	150,288	-15.5	-15.2	251.8
68	European American Bank, New York	33,163	23,057	20,870	27,363	43.8	10.5	-23.7
69	AmSouth Bank Birmingham, Ala.	335,244	300,531	490,803	385,545	11.6	-38.8	27.3
70	Provident National Bank, Philadelphia	123,396	136,269	275,897	169,212	-9.4	-50.6	63.0
71	California First Bank, San Francisco	163,404	156,787	159,353	107,979	4.2	-1.6	47.6
72	Chase Manhattan Bank USA, Wilmington, Del.	0	0	0	0	--	--	--
73	First Pennsylvania Bank, Philadelphia	12,359	14,046	30,973	31,863	-12.0	-54.7	-2.8
74	Chase Lincoln First Bank, Rochester, N.Y.	70,752	70,784	77,475	202,440	0	-8.6	-61.7
75	First Interstate Bank of Oregon, Portland	519,614	710,673	584,632	281,084	-26.9	21.6	108.0
76	Trust Company Bank, Atlanta	317,285	301,336	401,868	222,829	5.3	-25.0	80.3
77	First Tennessee Bank, Memphis	259,500	286,927	349,016	286,373	-9.6	-17.8	21.9
78	Bank of Hawaii, Honolulu	212,126	258,039	345,682	187,235	-17.8	-25.4	84.6
79	Society National Bank, Cleveland	243,822	318,224	417,598	229,253	-23.4	-23.8	82.2
80	Barnett Bank of South Florida, Miami	252,540	289,486	344,594	282,150	-12.8	-16.0	22.1
81	Sanwa Bank California, San Francisco	27,453	33,722	58,173	62,532	-18.6	-42.0	-7.0
82	Banco Popular de Puerto Rico, San Juan	138,523	174,898	178,205	162,830	-20.8	-1.9	9.4
83	Midlantic National Bank, Newark, N.J.	134,133	124,668	154,931	131,192	7.6	-19.5	18.1
84	Citibank (New York State), Perinton, N.Y.	1,777	1,815	2,069	2,843	-2.1	-12.3	-27.2
85	Citizens Fidelity Bank & Trust Co., Louisville, Ky.	172,642	177,442	214,982	184,811	-2.7	-17.5	16.3
86	First Florida Bank, Tampa	516,042	651,142	738,839	449,600	-20.7	-11.9	64.3
87	American Security Bank, Washington, D.C.	148,958	177,040	149,148	282,522	-15.9	18.7	-47.2
88	First National Bank of Maryland, Baltimore	234,823	271,034	284,696	100,331	-13.4	-4.8	183.8
89	Citizens & Southern National Bank of Florida, Fort Lauderdale	431,489	503,137	537,513	262,781	-14.2	-6.4	104.5
90	MBank Houston	86,706	101,121	171,393	173,436	-14.3	-41.0	-1.2
91	Hibernia National Bank, New Orleans	133,137	134,687	168,342	144,109	-1.2	-20.0	16.8
92	South Carolina National Bank, Charleston	192,760	204,460	234,719	170,028	-5.7	-12.9	38.0
93	Bank of California, San Francisco	187,266	193,266	195,382	211,760	-3.1	-1.1	-7.7
94	Arizona Bank, Phoenix	131,912	187,321	307,736	147,961	-29.6	-39.1	108.0
95	Fuji Bank & Trust Co., New York	46,802	177,861	164,390	19,314	-73.7	8.2	751.1
96	BancOhio National Bank, Columbus, Ohio	94,358	95,595	103,368	332,492	-1.3	-7.5	-68.9
97	Mellon Bank (East), Philadelphia	135,032	255,800	300,446	80,434	-47.2	-14.9	273.5
98	Indiana National Bank, Indianapolis	87,302	87,213	134,558	104,102	0.1	-35.2	29.3
99	Equitable Bank, Baltimore	234,867	235,215	329,823	0	-0.1	-28.7	n.m.
100	Mercantile Bank, St. Louis	128,882	147,302	194,924	224,252	-12.5	-24.4	-13.1

Source: The Bond Buyer

Large Banks Trimmed Municipal Bond Holdings by 14% in 1987

By MATTHEW KREPS
The Bond Buyer

NEW YORK — The 500 largest banks in the country slashed their municipal bond holdings by 14% in 1987, continuing the trend that began when the Tax Reform Act of 1986 was first proposed.

The banks' holdings shrank to $70.38 billion in 1987 from $81.64 billion in 1986. Combined with a 13% decline in 1986, the nation's biggest banks have let their tax-exempt portfolios dwindle nearly 25% since the end of 1985, when they loaded up on bonds in anticipation of tax reform and holdings that totaled $93.59 billion on Dec. 31, 1985.

These figures are based on entries banks make in their consolidated reports of condition under the category "securities issued by states and political subdivisions in the United States." The reports are filed with federal banking regulators every six months. The group includes credit-card and other "specialty" banks, even if they do not hold any municipal bonds.

Commercial banks were once the biggest investors in municipal bonds, but their presence in the market has declined steadily. In 1978, they held 44% of all municipal bonds outstanding, according to the Federal Reserve Board's *Flow of Funds Report*.

Even as late as 1985, after individuals had become the largest investing group, banks held 35% of the municipals outstanding. But by the end of 1987, they were down to a 25% share, according to the Fed's preliminary figures for the year.

Most Banks Reduced Portfolios

Last year, 394 of the 500 banks reduced their portfolios in terms of book value, and 28 of them cut more than $100 million. Only 72 banks increased their portfolios, none by more than $95 million. Thirty-four banks, most of them credit-card institutions, showed no municipal bond assets.

The banks would have fared even worse if they had had to sell their bonds in the secondary market. The market value of their portfolios dropped 17% last year, to $70.85 billion, because interest rates rose sharply and reduced market prices. In 1986, bond prices had risen steadily and kept the decline in the bank portfolios' market value down to 7%, nearly half the decline in book value.

The nation's top 100 banks, which own about 62% of the 500 banks' combined holdings, showed similar portfolio reductions last year. Their holdings fell 14% in book value, to $43.79 billion, and 17.5% in market value, to $44.08 billion. These holdings had declined 9% in book value and only 2.6% in market value in 1986.

Officials at many of the banks with the largest reductions in their portfolios said they had stocked up on short-term securities in earlier years, in anticipation of more restrictive tax laws, and were not able to replace them when they matured.

Congress has been whittling away at the benefits that banks get from buying municipal bonds since 1982, when the Tax Equity and Fiscal Responsibility Act trimmed the banks' tax deduction for carrying municipals for the first time, from 100% to 85%. A subsequent law lowered it to 80%. But the biggest blow came in late 1985, when the House proposed legislation that would have eliminated the deduction. While the law was not enacted until nine months later, bankers had to refrain from buying tax-exempts the entire year.

The 1986 law does allow banks to take an 80% deduction for carrying "bank-qualified" bonds: essential-purpose issues sold by governments that do not expect to sell more than $10 million of such bonds per year. The bank-qualified market has been a boon for small issuers: the demand from local and regional banks is so strong that the bonds sell at yields 10 to 40 basis points below nonqualified tax-exempts.

But the big money center banks that own the bulk of municipals said they do not find bank-qualified bonds appealing for two reasons: they cannot buy enough to rebuild their portfolios; and the bonds are expensive compared with Treasury securities in the short-term maturities they prefer, even with the 80% deduction.

In addition, many money center banks increased their loan loss reserves to protect against nonperforming loans to lesser-developed countries. That resulted in large tax losses and made higher-yielding taxable bonds a better investment than municipal bonds. Other banks, particularly those in Texas, also had less need for tax-exempt income because they continued to lose money on their domestic loan portfolios.

Most of the shrinkage in bond holdings came in the first six months of 1987. While portfolios declined 8.8% in book value and 11% in market value in the first half, they declined 5.5% in book value and 7% in market value in the second half. Bond prices plunged sharply in April and May and continued the slide through the summer.

Morgan Guaranty Trust Co. continued to be the biggest bondholder, with $4 billion in its vaults — more than twice the $1.79 billion held by the second-place bank, Citibank. The Chase Manhattan Bank fell to third with $1.74 billion, followed by Chemical Bank, with $1.6 billion; Bankers Trust Co., with $1.49 billion; the Bank of New York, $1.2 billion; and Manufacturers Hanover Trust Co., $1.1 billion. These were the only banks holding more than $1 billion of municipals at the end of 1987.

Hanover Led in Recutions

Manufacturers Hanover had the largest reduction last year, with a drop of $561 million, or 34%, to $1.1 billion. An officer of the bank, who asked not to be identified, said the decline resulted when large amounts of short-term put bonds matured and were not replaced by new debt.

Close behind was Connecticut Bank & Trust Co., Hartford, which cut its portfolio by $556 million, or 50%, to $547 million. Other large declines

Big Banks: Page 14 ➡

Same Day Service, 7 Days a Week... when tomorrow isn't good enough.

Small Package Service

There's no room for waiting in today's business world. Either you get it there on time... or there might not be a next time.

That's why TWA created Next Flight Out®. It puts time on your side by putting your package on the very next TWA flight heading toward your required destination.

For Domestic Shipments...

You save time. TWA's Next Flight Out service enables you to meet those grueling deadlines with confidence. We will deliver your package to any location in any city served by TWA's domestic network that very **same day.**

You're linked to over 100 domestic cities. TWA covers North America and the world, on our own aircraft, like no service can. In the U.S., Next Flight Out can move packages weighing up to 70 pounds and measuring up to 90 inches. At the other end of the scale, you can economically handle smaller items by using TWA's Next Flight Out Pak.

You get personal attention. TWA's Next Flight Out is service as you like it. We offer low cost counter-to-counter service. Or for an additional charge, TWA will provide door-to-door pickup and delivery, if that's the way you want to go.

You get a guarantee. There's no fine print here. If for any reason (except mechanical, weather or other conditions beyond TWA's control) your domestic shipment misses the flight of your choice, we guarantee to ship your package on the next flight free.

You save money. With TWA's Next Flight Out service, fast is affordable. One reason: You can use TWA's exclusive Zone Pricing System to pre-determine your cost for every domestic flight. Zone Pricing means the price you pay is based on the distance your package travels—never a penny more. So instead of facing a fat flat rate, you fly a speedy bargain. And for TWA's exclusive PAK service for shipments under 2.2 pounds, you'll be charged one low rate of $35.00 no matter where you ship in the U.S.

For International Shipments...

You have an overnight international connection. International Next Flight Out is almost like having your own shipping department in 20 cities abroad. For one low price, you get fast, customs-cleared, **door-to-door** delivery of your small package weighing up to 50 pounds to most TWA cities in Europe. And to London you can even ship a package weighing up to 70 pounds. What's more, TWA's exclusive TRAC—a computerized monitoring system—keeps tabs on your shipment, so you know where it is every minute of the day.

You get the facts. If your package meets our weight requirements, Next Flight Out could be your ticket to flying faster. Get the facts free by completing and mailing the attached coupon today. Or CALL NOW: **1-800-638-7380.**

You receive additional FFB bonus mileage. Now whenever you ship Next Flight Out, you're in line for additional savings success. Bonus mileage will be credited to your TWA Frequent Flyer account every time you use the service. All you have to do is attach your Frequent Flyer ID sticker to the Next Flight Out airbill. We do the rest. You get 1,000 bonus miles for every package you ship out of the country and 500 extra miles for every nationwide shipment you make. Offer expires December 31, 1988

RUSH me free material **NOW** on TWA'S Next Flight Out Service

Name_____

Title_____

Company_____

Address_____

City_____

State_____ Zip_____

Telephone ( )_____

Send today to: TWA's Next Flight Out
PO Box 3174, Agent 53, Melville, NY 11747
or call: **1-800-638-7380**
and ask for **Agent 54**

TWA CARGO

FIND OUT HOW GOOD WE REALLY ARE.

The following proposals have been issued for comment by federal regulators, government agencies, and other regulatory groups whose rules affect the financial industry. The deadline date precedes each item. This feature is compiled by Howery Pack.

COMPENSATION

May 19 — The *National Credit Union Association* asks for comments on its proposal to clarify statutory limits on compensation of officials and gives authority and guidelines for indemnification of officials and employees.

Address comments to: NCUA, 1776 G St., N.W., Washington 20456.

FOREIGN OFFERINGS

May 27 — The *Federal Reserve Board* requests comments on changes to Regulation T, allowing broker-dealers to extend good faith loan value on long-term debt securities issued or guaranteed by a foreign sovereign if the securities are rated in one of the two highest rating categories by a nationally recognized statistical rating service. The proposal would also apply to provinces or states of a foreign sovereign or a supranational entity.

Send comments to: Docket No. R-0633, William W. Wiles, Secretary, Federal Reserve Board, 20th St. and Constitution Ave., N.W., Washington 20551.

ASSESSING PREMIUMS

June 6 — The *Federal Home Loan Bank Board* seeks comments on a proposal to vary insurance premiums against insured institutions based on an institution's capital level.

Address comments to: Director, Federal Home Loan Bank Board, 1700 G St., N.W., Washington 20552.

CONFLICTS OF INTEREST

June 13 — The *Federal Home Loan Bank Board* requests comments on its proposal not to apply the conflict of interest provisions to transactions between holding company subsidiary insured institutions and their affiliates, other than natural persons who have controlling shares.

Send comments to: Director, Information Services Section, Office of the Secretariat, Federal Home Loan Bank Board, 1700 G St., N.W., Washington 20552.

CALL REPORTS

June 15 — The *Federal Financial Institutions Examination Council* asks for comments on its proposal to define the "submission date" in call reports as the date the completed call report is received by the banking agencies, or their collection agents, if the report is submitted electronically. The report would not be considered late if it missed the submission deadline, as long as it had been mailed first class and postmarked no later than three days before the deadline.

Write to: Robert J. Lawrence, Executive Secretary, Federal Financial Institutions Examination Council, 1776 G St., N.W., Suite 701, Washington 20006.

NONMEMBER BANKS

June 20 — The *Federal Deposit Insurance Corp.* requests comments on a proposed statement of policy intended to provide guidance to banks on the position of the FDIC regarding independent external audits of state nonmember banks.

Address comments to: Hoyle L. Robinson, Executive Secretary, Federal Deposit Insurance Corp., 550 17th St., N.W., Washington 20429.

PRIVATE-SECTOR COLLECTION

Aug. 3 — The *Federal Reserve Board* also asks for comments on its proposed rule to require paying banks to pay for checks presented by private-sector collecting banks before 2 p.m. in same-day funds, without any presentation fees.

Send comments to: Docket No. R-0631, William W. Wiles, Secretary, Federal Reserve Board, 20th St. and Constitution Ave., N.W., Washington 20551.

If you know of a proposal worthy of comment, please send a copy to: Howery Pack, Editorial, American Banker, One State Street Plaza, New York, N.Y. 10004.

Municipal Holdings Fell 14% at Big Banks in '87

➳ Continued from Page 7

were reported by First RepublicBank, Dallas, which cut $454 million, or 74%, of its portfolio; Pittsburgh National Bank, which cut $423 million, or 57%; and Michigan National Bank, Farmington Hills, which cut $401 million, or 69%.

Boston Safe Deposit & Trust Co. had the biggest portfolio increase in 1987, with a gain of $95 million, or 11%, to $971 million. The bank is the principal subsidiary of the Boston Co., which is owned by Shearson Lehman Hutton Inc. Bank officials would not comment on their portfolio.

Following Boston Safe Deposit was Bankers Trust Co., up $93 million, or 7%; Idaho First National Bank, Boise, up $75 million, or 5,959%; Exchange National Bank of Chicago, up $54 million, or 964%; and First Interstate Bank of Arizona, Phoenix, up $46 million, or 11%.

New York banks continued to hold the vast majority of municipal bonds, with 44 owning $17.26 billion, or 24.5% of the 500 largest banks' combined holdings. They were followed by Florida, $4.92 billion among 27 banks; Pennsylvania, $4.11 billion among 39 banks; New Jersey, $3.75 billion among 29 banks; and Ohio, $3.33 billion among 27 banks.

The New York banks also had the largest average portfolio, with $392 million. Next came Oregon, with $273 million; Connecticut, $254 million; Georgia, $249 million; and North Carolina, with $243 million.

The New York banks also sold off the most bonds in 1987, with a total reduction of $2.1 billion, or 11%. ■